

## **FY 2009 EMERGING MARKETS PROGRAM PROPOSAL**

### **1. DATE OF PROPOSAL**

August 12, 2008

### **2. NAME, ADDRESS, AND TAX ID NUMBER OF SUBMITTING ORGANIZATION**

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### **4. PROPOSAL TITLE**

***Developing and Disseminating Information on the Russian Agro-Food Economy: The Russian Annual Agro-Food Outlook Conference***

### **5. TARGET MARKET**

The target market is the Russian Federation. U.S. agriculture and food interests need more information about the rapidly-changing Russian agro-food economy, especially concerning consumer and food demand issues and how they affect Russian agro-food trade, as well as the implications for U.S. trade and investment. Ever since Russia came out of its economic crisis of 1998-99, Russian demand for high value and processed food products has been surging, largely because of rising consumer income. The food demand growth has in turn substantially increased Russian agro-food imports. Yet, the U.S. share in Russia's agro-food imports is small, especially of high value products (HVPs), and has been declining. Another important and more recent development has been the jump in world food prices, which has hit Russia strongly (along with most other countries in the world). The rise in food prices in the short run has mitigated the longer term growth in Russian food demand and hurt consumers, though more so the poor than the affluent. Russia is a major importer of meat and nontrivial exporter of grain and

sunflowerseed. Key questions for Russia, the United States, and world agricultural markets are the degree to which Russian food demand will continue to grow in the short to medium term, the degree to which this demand is met by imports as opposed to Russian domestic output, and whether higher world agricultural prices will motivate increased Russian exports of grain and sunflowerseed.

In 2007-08, ERS had an emerging markets project in Russia, the main part of which was organizing an annual agricultural outlook conference in the country. The proposed 2009 project would continue ERS involvement in organizing and participating in the conference, which contributes substantially to the creation and dissemination of agro-food market information about Russia. Such information will be useful to U.S. agro-food interests, in terms of assessing the potential for Russian agro-food imports and exports.

## **6. CURRENT CONDITIONS IN THE TARGET MARKET**

2000 was the first year since Russia began its economic transition that consumer income rose, and since that year income in real terms has more than doubled. The surge in income has resulted in growing demand for food, especially high value products (HVPs). Because the Russian food processing industry has had difficulty competing with imports on both quality and price, much of this demand has been met by imports. The value of Russia's agro-food imports has risen from \$7 billion in 2000 to a projected \$35 billion in 2008.

U.S. producers currently have only a small share of the Russian market for food, and their share has fallen in recent years. In 2007, the U.S. share in Russia's agro-food imports was only 5 percent, down from 10 percent in 2000. The only major U.S. agriculture and food export to Russia is poultry, which in recent years has accounted for about two-thirds of the total value of U.S. agro-food exports to the country. Without poultry, the U.S. share in Russia's agro-food imports drops to less than 2 percent. In the past few years, the U.S. dollar has depreciated substantially against most currencies in the world, including the Russian ruble. The depreciation raises the price competitiveness of U.S. agro-food exports to Russia vis-à-vis both Russian producers and U.S. export competitors. Yet, to take advantage of this opportunity, U.S. agro-food exporters need information concerning conditions and opportunities within Russian agro-food markets.

Since 2005, world agricultural and food prices have risen substantially, especially for staple products such as grain and rice. The price surge has strongly affected Russia, where since 2007 consumer food prices have risen by about 40 percent. The price growth has reduced food demand and correspondingly demand for food imports in volume terms, though because of higher prices, Russian agro-food imports can increase in nominal value terms. For example, Russia's agro-food imports are projected to rise in U.S. dollar value terms from about \$28 billion in 2007 to \$35 billion in 2008. Determining how growing Russian consumer incomes on the one hand, and rising food prices on the other, affect Russian agro-food import demand will be important for Russia, U.S. agro-food exporters, and world markets. Another important issue is determining whether agro-food imports rise in value versus volume terms. Given that Russia is a

nontrivial exporter of grain and sunflowerseed, its export response to higher world prices for these commodities is also important for U.S. and world agriculture.

## **7. DESCRIPTION OF PROBLEM TO BE ADDRESSED**

U.S. policymakers and commercial agro-food interests need more information about the major changes occurring in Russia's agro-food economy, on both the demand and supply side. Although USDA reporting on such topics from Moscow has been very informative, information and analysis available from all possible sources is still very scarce. Important questions include: (1) how will consumer demand for food, and especially HVPs, change over the next 5-10 years, and which commodities will be most affected? (2) to what degree will higher food prices in Russia affect the post-2000 rise in Russian demand for food, and thereby demand for food imports? (3) to what degree will higher world food prices motivate Russia to increase its exports of grain and sunflowerseed? (4) for what particular products might there opportunities for U.S. producers to increase their share in Russia's food markets?

The objective of our project is to assist U.S. policymakers and agro-food producers and investors interested in the Russian market by helping to generate and disseminate information to help answer these and other questions. This project will build on an ERS project on Russia funded by the Emerging Markets Office covering FY 2007-08. The main objective of that project was to work with the Russian agro-food establishment to organize and sustain an annual agro-food outlook conference similar to that held by USDA. Our new project will allow ERS staff to continue to help the Russians organize this conference, which will contribute to ERS' generation and dissemination of agricultural market information on Russia.

As part of the prior project, the first Russian agro-food conference was held in September 2007, and the second will be in September 2008. The first conference was a major success, attracting more than 300 attendees. The conference was organized mainly by the private sector, though with the approval and participation of the Russian Ministry of Agriculture. It featured speakers representing Russian government, the agro-food commercial sector, financial sector, research institutes, and private sector market analysis firms, as well as speakers from Western agro-food firms doing business in Russia (or hoping to in the near future), the Organization for Economic Cooperation and Development, and ERS and the World Board of USDA.

The second conference to be held in September 2008 should be an even greater success. In 2008, the Russian conference organizing committee has worked much more confidently and effectively than in 2007. The program was finalized much earlier than in 2007, which gave the conference organizers more time to recruit speakers and advertise the conference. The invited 2008 presenters are better matched to their topics. The logistical organization of the conference has also markedly improved.

Although the Russian outlook conference would almost certainly be sustained without continued ERS involvement, the Russian conference organizers strongly wish that we continue to participate for one additional year as we have the past two years. In addition to shaping the overall conference program, the main contribution ERS would make to the conference would be

to recruit ERS/USDA personnel and other Western specialists to give presentations on developments in the world agro-food economy. These presentations, most of which are given in the conference's opening plenary session, provide the crucial international context for Russian agriculture. Russian specialists are not yet capable of providing such a perspective, and the conference organizers lack the contacts to identify and recruit such people. Participation by Western specialists also adds prestige to the conference, which attracts more attendees. ERS involvement one more year would help the Russian conference organizers develop the contacts needed to recruit Western presenters themselves.

Even if the Russians could recruit the foreign specialists, the conference currently does not generate enough revenue to pay the travel costs for all the Western presenters. For the second year conference in September 2008, the Russians are able to cover some of these travel costs (though not yet half). Given that attendance and thereby registration fee revenue generated by the conference should grow over time, after one more year of ERS conference involvement, the Russian conference organizers should be able to assume the full responsibility of recruiting and funding the full complement of invited Western presenters. FY 2009 will definitely be the last year for which ERS seeks Emerging Markets funding for involvement in the Russian agricultural outlook conference.

The Russian outlook conferences have become an effective way of motivating the Russian agricultural establishment to increase the quantity and improve the quality of its analysis, as well as disseminate it. The conferences thereby generate the type of information and analysis that analysts at ERS and other USDA agencies need to monitor and analyze the demand and supply side questions identified earlier. ERS participation in the conferences also expands its own contacts with Russian agro-food specialists.

ERS' interest in helping the Russians organize this conference (through the EM FY 2007/08 project) began with the strong suggestion by Allan Mustard, the Agricultural Counselor in Moscow, that ERS and his office collaborate in this activity. Moscow Post has been highly supportive of this project, and the current Agricultural Counselor in Moscow, Scott Reynolds, has read this proposal, and told us that he also strongly supports this project. If the project is funded, FAS/Moscow has assured ERS that its office will work with us as appropriate to help strengthen and sustain the conference.

## **8. PROJECT OBJECTIVES**

The project's principal objective is to provide U.S. policymakers and agro-food interests with information about the major changes occurring in the Russian agro-food economy concerning consumer food demand and import and export response to rising consumer incomes and food prices. This information would be important for decision-making concerning agro-food trade and investment in Russia. The information would also be useful input to FAS reports. The means to the end of providing this information would be to continue to organize and participate in the Russian annual agro-food outlook conference. The conference substantially helps motivate the Russian agricultural establishment to produce and disseminate agro-food market information and analysis, useful to both Russian and U.S. agro-food interests.

## **9. PERFORMANCE MEASURES**

- An agricultural outlook conference is held in Russia, in collaboration with largely private sector Russian entities
- Information obtained at the conference is effectively disseminated to regional and U.S. decision-makers

## **10. RATIONALE**

Better information, widely disseminated, supports the development of increased U.S. exports and investment. It also helps reduce market uncertainty and provides a better basis for assessing the viability of investment.

The promise Russia holds as a market for high value agricultural products, and the current need for better information on changing consumer demand, rising food prices, and import and export response, makes this project a strong candidate for funding.

## **11. DEMONSTRATION OF BENEFITS TO U.S. AGRICULTURE, NOT JUST THE APPLICANTS**

Many parts of the U.S. agricultural sector have an interest in improved understanding of the changing Russian market. These include current suppliers of high value products (such as poultry) whose market depends on continued growth in consumer demand. They also include other high value industries and retail investors, who are currently not participating as fully as they could in the Russian market.

Industries actively seeking support to increase presence in the Russian high value/retail market (such as soy processing, fish and other sea foods, wine) could also benefit. ERS plans to contact representatives of these industries to ascertain their particular interests and concerns and incorporate them into both the agenda of the outlook conference and subsequent analysis (see Appendix 1 for examples).

U.S. food retail companies would benefit from better information on prices and consumption and the analytical indicators that the project could help generate. U.S. supermarket chains and companies making processed food and beverages would also be clear beneficiaries.

## **12. JUSTIFICATION FOR FEDERAL FUNDING**

Annual outlook conferences have proven to be an effective means for bringing together a large number of market participants and disseminating market information. Prior to ERS' involvement the past two years in helping the Russians organize an annual agro-food outlook conference, Russia did not have such a conference. ERS assistance through Federal funding would "prime the pump," providing the technical assistance needed to help sustain these

conferences. The Russian market information generated by and disseminated at the conference is highly useful to U.S. agro-food commercial interests.

ERS does not have legislative authority to fund technical assistance projects. Travel by USDA staff to Russia would be essential to develop the level of cooperation and activity that we envision. For ERS to devote significant staff time to this project would require temporarily shifting significant staff resources to the project. ERS would need external funds to pay for the salary costs.

### **13. DESCRIPTION OF ACTIVITIES TO BE UNDERTAKEN**

As members of the conference organizing committee, ERS project staff will continue to work closely with the Russian committee members to plan the conference program and organize the conference itself. As we have in the past two years, ERS in particular will use its influence to help determine the focus and theme of the conference, as well as suggest specific presentation topics. ERS project representatives will once again attend the important meeting of the conference organizing committee in May 2009.

ERS project staff will also continue to recruit ERS/USDA and other Western specialists to give presentations at the conference, especially for the opening plenary session which examines current developments in world agricultural markets, and thereby establishes the international context for Russian agriculture for the remainder of the conference. ERS project staff themselves might also give presentations at the conference. For example, at the 2008 conference this September, ERS project participant William Liefert will give a presentation that examines the reasons behind the surge in Russian agro-food imports since 2000.

ERS project staff will also continue to advise and work with the conference administrative organizers, especially on translation of presentations, and also attend and participate in the September 2009 conference in Moscow. The end product of the project will be the dissemination of information and analysis obtained from the conference to U.S. policymakers and the agro-business community.

ERS has staff with significant expertise on working in Russia and the other transition countries, and in organizing conferences in foreign countries. William Liefert is a career specialist on Russian and transition agriculture with more than 20 years' experience working in the region. He has worked on, and often led, many projects involving collaboration with Russian agricultural specialists. Olga Liefert has more than 15 years experience working on Russian and transition agriculture, is fluent in Russian, and intimately knows the culture (being Moscow-born and raised). Given her various work responsibilities at ERS, she will participate in the project as available. Nancy Cochrane, another longstanding transition economy specialist, has experience running technical assistance projects (many funded by EM) in numerous transition economies, including Poland, Hungary, the Slovak Republic, Romania, and Serbia, as well as strong experience organizing conferences in these countries.

## **14. TIMELINE FOR IMPLEMENTATION OF ACTIVITIES**

### **May 2009: Meeting with conference organizers**

Attend critical meeting of the conference organizing committee, at which conference program is largely finalized. Also meet individually with conference organizers and presenters, to plan and coordinate activities.

### **September 2009: Third outlook conference in Russia**

Hold agricultural outlook conference in Russia. Presentations made at conference by Western specialists and ERS staff, largely covering world agricultural developments, which set the international context for Russian agriculture. Gather information presented at the conference for ERS market monitoring and analysis, and dissemination to stakeholders in the United States.

Throughout the year will communicate with the Russian conference organizers to plan and organize the conference.

## **15. SIMILAR ACTIVITIES FUNDED BY USDA IN TARGET MARKET**

The proposed project does not duplicate other activities funded by USDA in Russia. It would build on and integrate previously funded activities. ERS would coordinate with agencies involved in previous Russian work (including NASS and AMS) to determine if any of their work included information on high value products or retail price information. FAS GAIN reports highlight the growth and change in retail markets. The reports provide a rich source of information, which we would utilize in this project.

ERS also plans to meet with representatives of U.S. industry, including cooperators and those who have applied for USDA market assistance funding in previous years, to make sure that this project incorporates their insights and does not duplicate ongoing activities. A selection of these groups is listed in Appendix 1.

## **16. BUDGET AND ADMINISTRATION**

### **Project Budget — Attached at end of proposal**

## **APPENDIX 1: INDUSTRIES WITH INTERESTS IN RUSSIA**

Poultry — U.S.A. Poultry and Egg Export Council

Soy processing — National Oilseed Processors' Association

Fish and other sea foods — National Fisheries Institute, Alaska Seafood Council

Wine — Wine America

Confectionary — National Confectionary Association

Honey — National Honey Board

Almonds — Almond Board of California

## **APPENDIX 2: ERS CONTACTS IN RUSSIA**

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***Developing and Disseminating Information on the Russian Agro-Food Economy:  
The Russian Annual Agro-Food Outlook Conference  
Budget***

<b>Travel</b>	Air	L & MIE	Misc	Total	Notes
Meet with conference organizers	4,956	9,180	944	15,080	2 travelers, 1 trip 6 nights in country
Attend conference	9,912	15,458	1,888	27,258	4 travelers, 1 trip 5 nights in country
				42,338	
<b>ERS Salaries</b>	Staff	# weeks	Salary/week	Total	4 of 6 project travelers will be ERS staff
	4	1	2,500	10,000	
<b>Miscellaneous</b>				2000	
<b>Grand Total</b>				54,338	

